A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Public Health and Human Services

For the Two Fiscal Years Ended June 30, 2017

NOVEMBER 2017

LEGISLATIVE AUDIT DIVISION

17-14

Legislative Audit Committee

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018.

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November 2017

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Public Health and Human Services for the two fiscal years ended June 30, 2017. Included in this report are 13 recommendations related to improvements in internal controls and compliance with federal regulations, and errors in the financial records. Federal program recommendations include overarching policies and procedures as well as recommendations specific to five of the federal programs administered by the department.

As noted in the department's response starting on page C-1, the department does not concur with two of the recommendations in the report. For each recommendation #3 and #12, the department's response does not contain any information not already considered during the audit. As such, we maintain our position as reported.

We thank the Director and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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	Todd Harwell, Administrator, Public Health and Safety Division
Economic Services Branch	Bob Runkel, Economic Security Services Branch Manager
	Chad Dexter, Administrator, Child Support Enforcement Division
	Maurita Johnson, Administrator, Child and Family Services Division
	Jim Marks, Administrator, Disability Employment Transitions Division
	Jamie Palagi, Administrator, Human and Community Services Division
Medicaid and Health Services Branch	Zoe Barnard, Administrator, Addictive and Mental Disorders Division
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Montana Legislative Audit Division

Financial-Compliance Audit

Department of Public Health and Human Services

For the Two Fiscal Years Ended June 30, 2017

November 2017 17-14 Report Summary

The Department of Public Health and Human Services expended approximately $4 billion in state and federal funds for benefits and claims costs incurred during the audit period. Our audit identified over $1 million in federal costs resulting from a violation or probable violation of a federal regulation. These costs are commonly referred to as questioned costs, and are related to the department's Medicaid, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and Immunization federal programs. When this information is reported as part of the state's Single Audit, federal grantor agencies may require the department to repay these questioned costs.

Context

The Department of Public Health and Human Services (department) is responsible for administering and supervising Montana's public assistance programs. The department's overarching goals are to provide for the health, safety, and self-sufficiency of all Montanans.

Department expenditures for the audit period included approximately $3.5 billion in federal funds. Fifteen of approximately 120 federal programs administered by the department comprised over 95 percent of the federal expenditure total, with Medicaid and the Supplemental Nutrition Assistance Program (SNAP) comprising around 80 percent of that total. Benefits and claims expenditures totaled $4.0 billion for the biennium, which is a $1.0 billion increase over the previous biennium. The increase is mostly the result of increased Medicaid case load and costs, including Medicaid expansion under the Affordable Care Act.

The department also operates mental health, developmental disabilities, and long-term care facilities. The department contracts for Medicaid claims processing services and manages a number of information systems to handle eligibility, contractor payments, and other data intensive elements of its programs.

We audited ten department programs with federal expenditures ranging between $4.4 million and $2.4 billion for the two fiscal years ended June 30, 2017, as major federal programs. We performed tests to determine whether the department complied with certain federal regulations in administering those programs. Other testing included, but was not limited to, consideration of transactions related to contracted services, personal services, and benefits and claims. This included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws and federal regulations.

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Results

The prior audit report contained ten recommendations, of which the department implemented five, and partially implemented five. Recommendations partially implemented are further discussed in this report.

This report includes 13 recommendations primarily related to improving internal controls and compliance with federal laws and regulations.

The report also includes a recommendation related to the department correctly recording revenue estimates on the state's accounting records. Errors in fiscal year 2017 revenue estimates for each the general fund and federal special revenue fund resulted in a modified opinion on the department's financial schedules.

Recommendation Concurrence	
Concur	11
Partially Concur	0
Do Not Concur	2

Source: Agency audit response included in final report.

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Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Department of Public Health and Human Services (department) for the two fiscal years ended June 30, 2017. The objectives of the audit were to:

1. Determine whether the department complied with selected applicable state laws and federal regulations during the audit period.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity for each of the fiscal years ended June 30, 2017, and 2016.

During the audit we focused our audit efforts primarily on the department's activity related to its federal programs. The department receives over $1 billion dollars each year from the federal government, mainly related to public assistance programs. Many of these federal programs have requirements for the department to match a percentage of federal funds with state funds. Our audit efforts over the federal programs also included these state dollars. Other testing included, but was not limited to, transactions related to contracted services, personal services, and benefits and claims. This included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws and federal regulations.

This report contains 13 recommendations to the department. These recommendations address areas where the department can improve internal controls and compliance with federal regulations and addresses errors in the accounting records.

Background

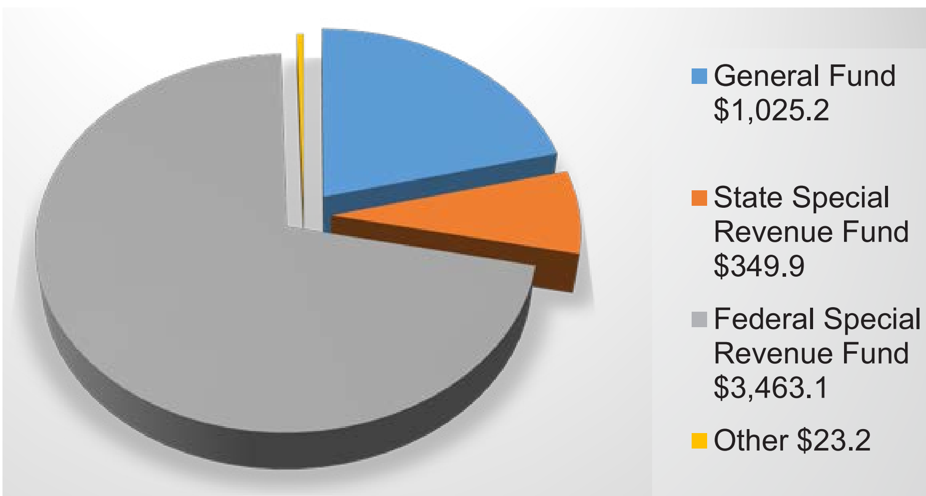
The department spent approximately $2.67 billion in fiscal year 2016-17, and $2.19 billion in fiscal year 2015-16, administering a wide spectrum of social service and health programs for the state of Montana. The programs include Medicaid, foster care and adoption, nursing home licensing, long-term care, aging services, alcohol and drug abuse, mental health services, vocational rehabilitation, disability services, child support enforcement activities, and public health services, including communicable disease control and preservation of public health through chronic disease prevention.

Department facilities, by location, include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Facility, Lewistown; Montana Chemical Dependency Center, Butte; Eastern Montana Veterans Home, Glendive; Montana Veterans Home, Columbia Falls; and Montana Developmental Center (MDC), Boulder. Chapter 258, Laws of 2017, extended the closure date for the MDC until June 30, 2019, and authorized the continued use of the Assessment and Stabilization Unit as a 12-bed secure intensive behavior center on the MDC campus.

Total expenditures by fund for the two fiscal years ended June 30, 2017, are identified in Figure 1 below. Benefits and claims expenditures account for approximately 78 percent of the total expenditures.

Figure 1

Expenditures by Fund for the Two Fiscal Years Ended June 30, 2017 (Amounts in Millions)



Source: Compiled by the Legislative Audit Division from department accounting records.

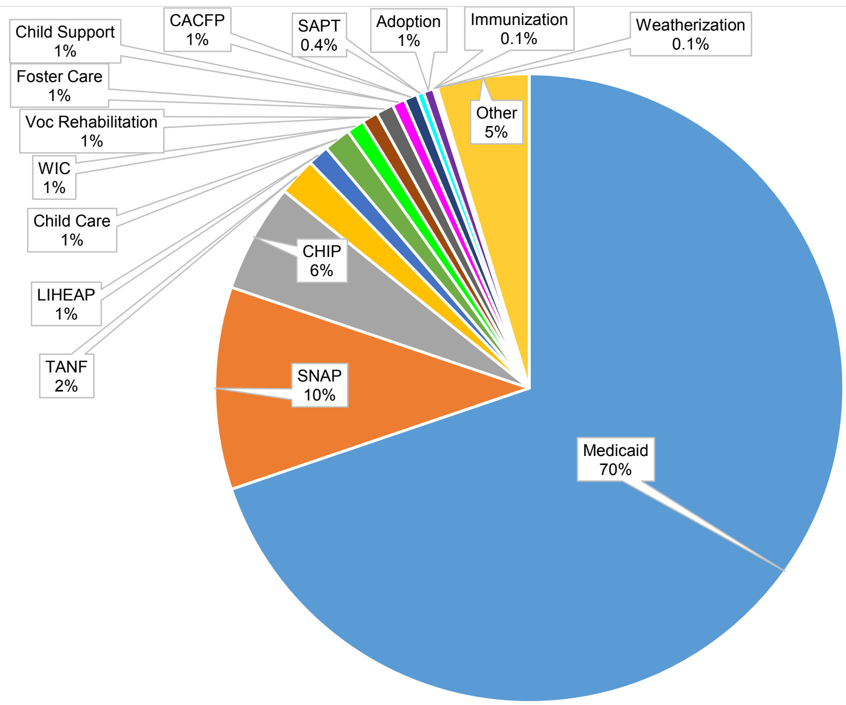
Federal regulations provide guidance to define major federal programs for the state of Montana subject to audit. Due to changes in federal regulations, only those major federal programs meeting specific risk criteria are audited. As a result, the Child and Adult Care Food, Child Support Enforcement, Vocational Rehabilitation, Children's Health Insurance, and Supplemental Nutrition Assistance federal programs were not audited for compliance with associated federal regulations.

High dollar programs not audited for the two fiscal years ended June 30, 2017, will be audited during the next regular department audit. We audited ten department programs with federal expenditures ranging between $4.8 million and $2.4 billion for the two fiscal years ended June 30, 2017, as major federal programs. We performed

tests to determine whether the department complied with certain federal regulations in administering these programs. Figure 2 identifies the department's largest programs and the related expenditures recorded on the state's accounting records.

Figure 2

Federal Program Expenditures for the Two Fiscal Years Ended June 30, 2017



Medicaid	$2,416,835,764
Supplemental Nutrition Assistance Program (SNAP)	360,558,730
Children's Health Insurance Program (CHIP)	193,407,476
Temporary Assistance for Needy Family Program (TANF)	67,648,427
Child Care Development Block (CCDB)	47,978,683
Low Income Energy Assistance Program (LIHEAP)	37,985,531
Women, Infants, and Children (WIC)	31,430,007
Foster Care	31,075,144
Vocational Rehabilitation Grant to the States (Voc Rehab)	28,295,176
Child and Adult Care Food Program (CACFP)	23,407,116
Child Support Enforcement	22,919,275
Adoption	17,628,456
Substance Abuse, Prevention, and Treatment (SAPT)	12,689,740
Department of Energy Weatherization	4,452,426
Immunization	3,278,440
Other	163,472,989
Total	**$3,463,063,380**

Source: Compiled by the Legislative Audit Division from department records.

Changes in Social Services

Benefits and claims, which are costs or moneys for services provided to or on behalf of individuals, expenditures totaled $3.0 billion in the 2015 biennium and $4.0 billion in the 2017 biennium, an increase of seven percent. Table 1 below shows changes in case loads for selected programs from 2016 to 2017. The majority of the benefits and claims expenditure increase is related to an increase in Medicaid cases as well as Medicaid costs, including cases related to Medicaid expansion under the Affordable Care Act.

Table 1

Department of Public Health and Human Services Case Load Analysis for TANF, Medicaid, and SNAP

	June 2016	June 2017	Percent Change
Temporary Assistance for Needy Families (TANF) by individual	3,229	4,502	39%
Medicaid Title 19 (Physical health)-Unduplicated by case	177,221	205,885	16%
Medicaid Mental Health by case	16,392	16,329	0%
Medicaid Affordable Care Act (Physical health)-Unduplicated by case	44,665	69,042	55%
Medicaid Affordable Care Act Mental Health by case	4,805	6,688	39%
Supplemental Nutrition Assistance Program (SNAP) by individual	55,667	57,980	4%

Source: Compiled by the Legislative Audit Division from department records.

Note: An individual may participate in multiple programs, so the case loads may be duplicated in counts.

Organizational Structure

During the two years ended June 30, 2017, the department organization consisted of 3 branches and 12 divisions. Descriptions of the branches and divisions are provided below. The department's organization chart and employee full-time equivalent (FTE) positions are shown in Figure 3 (see page 9).

The **Director's Office** (49.50 FTE) provides overall policy development and administrative guidance to the department. The Director's Office staff includes legal affairs, public information, human resources executive support, preventive resources center, planning, coordination and analysis, and health policy services.

The **Operations Services Branch** (248.83 FTE) includes the Office of Management & Fair Hearings (22 FTE). It also includes the following divisions:

- The **Business and Financial Services Division** (60.00 FTE) provides services for the department including financial and accounting oversight,

department-wide budget monitoring and support, cash management, preparation and filing of federal financial reports, purchasing of supplies and equipment, audit coordination, lease management, mail handling, property and records management, accounts payable, and facility reimbursements.

- The **Quality Assurance Division** (104.23 FTE) monitors and ensures the integrity and cost effectiveness of programs administered by the department. Services include: oversight of health and day-care providers; investigation of allegations of fraud of recipient eligibility affecting Medicaid, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance Program; identification of parties responsible for paying client medical expenses; oversight of internal audits for department programs; and provide hearings for clients and providers participating in department programs.
- The **Technology Services Division (TSD)** (62.60 FTE) is responsible for the planning, implementation, and operations of information technology (IT) systems and infrastructure that directly support department programs. TSD develops a biennial DPHHS Information Technology Plan that establishes department goals and objectives regarding the development and use of IT and provides details on how the department will participate in meeting the goals of the State Strategic IT Plan. The division administrator, who also serves as the department's chief information officer, is responsible for implementing the plan and managing the work of the division.

The **Medicaid and Health Services Branch** (1,287.40 FTE) includes the Medicaid Systems Support Program (5.00 FTE). It also includes the following divisions:

- **The Senior and Long-Term Care Division** (217.55 FTE) administers and provides publicly-funded, long-term care services for Montana's senior citizens and persons with physical disabilities through programs consisting of the Office on Aging, Medicaid community and nursing services, the state's two veterans' homes, protective services, and supplemental payments for Supplemental Security Income to eligible individuals residing in designated residential care facilities.
- The **Developmental Services Division** (295.17 FTE) provides services that help Montanans with disabilities to live, work, and fully participate in their communities. The division provides or contracts for institutional care, residential services, home-based services to families, case management, children's mental health services, and a variety of employment outcome-related services. The division operates the Montana Developmental Center in Boulder and administers the Developmental Disabilities Program.
- The **Addictive and Mental Disorders Division** (718.06 FTE) implements and improves a statewide system of prevention, treatment, care, and rehabilitation for Montanans with mental disorders or addictions to drugs or alcohol. The division achieves this by contracting for chemical dependency and adult mental health services with behavioral health providers. It also provides services in inpatient facilities at Montana State Hospital in Warm Springs, Montana Chemical Dependency Center in Butte, and Montana Mental Health Nursing Care Center in Lewistown. In addition, the

Medicaid program funds outpatient and residential chemical dependency treatment for adolescents who are Medicaid recipients.

- The **Health Resources Division** (51.62 FTE) administers Medicaid primary care services, the Healthy Montana Kids Program, and Big Sky Rx, to improve and protect the health and safety of Montanans. The division reimburses private and public providers for a wide range of preventive, primary, and acute care services.

The **Economic Security Services Branch** (1,168.24 FTE) includes the following divisions:

- The **Human and Community Services Division** (488.31 FTE) supports the strengths of families and communities by promoting employment and providing the assistance necessary to help families and individuals meet basic needs and work their way out of poverty. The program provides cash assistance, employment training, Supplemental Nutritional Assistance Program, Medicaid eligibility determinations, early childhood care, energy assistance, weatherization, emergency shelter, and distribution of United States Department of Agriculture commodities.
- The **Child Support Enforcement Division** (157.31 FTE) obtains medical and financial support for children by establishing, enforcing, and collecting financial support owed by obligated parents. Services include locating absent parents, identifying assets, establishing paternity, and ensuring parents maintain medical health insurance coverage for their dependent children.
- The **Child and Family Services Division** (381.65 FTE) provides protective services to children who are abused, neglected, or abandoned. This includes receiving and investigating reports of child abuse and neglect, helping families to stay together or reunite, and finding placements in foster or adoptive homes.
- The **Disability Employment and Transitions Division** (140.97 FTE) operates programs to advance employment opportunities, independent living options, and transitions from high school to post-secondary education and work for Montanans with disabilities. The division offers services ranging from employment planning to transportation coordination and works with other agencies to reduce barriers for people with disabilities.

The **Public Health and Safety Division** (186.01 FTE) oversees the coordination of the public health system in Montana. The division provides a wide range of public health services to individuals and communities that are aimed at prevention of disease and promotion of health. Programs include clinical and environmental laboratory services, chronic and communicable disease prevention and control, maternal and public health services, public health emergency preparedness, Women, Infants and Child Special Nutrition Program, food and consumer safety, tobacco cessation and prevention programs, and emergency medical services.

Prior Audit Recommendations

The prior audit report contained ten recommendations. The department implemented five and partially implemented five recommendations. Recommendations partially implemented are discussed below and on pages 14 (Cash and Management), 22 (Medicaid Automated Data Processing Systems), and 23 (Medicaid Reporting). The CHIMES System Controls information was originally reported in the #15DP-01 report, and are not included in the number of audit recommendations from the prior report.

Prior audit recommendations partially implemented will be revisited during the next financial-compliance audit of the department.

CHIMES System Controls

The prior audit summarized internal control deficiencies identified by the Combined Healthcare Information and Montana Eligibility System-Enterprise Architecture (CHIMES-EA) audit which were reported in detail in the #15DP-01 report. While the CHIMES-EA computer system performs various functions, it is the system used to determine TANF eligibility and benefit amounts. Follow-up on the audit recommendations indicates the department has made progress in addressing internal control deficiencies, but department staff continue to use system work-arounds to achieve appropriate eligibility and benefit decisions for the TANF program. In a sample of TANF beneficiaries, we identified one instance where the TANF client received an additional $175 as the result of a system work around. We also identified a difference of $1 between the monthly benefit paid and the monthly benefit due the client, which the department attributed to a typo in the policy manual.

Correctly functioning system controls ensure consistent and accurate eligibility determinations and benefit calculations. By continuing to rely on program staff to identify inaccuracies and to utilize system work-arounds, the department risks inconsistent and incorrect eligibility determinations. Department representatives have been asked to provide additional status updates at a future Legislative Audit Committee hearing. Because the department continues to make improvements, we make no further recommendation at this time.

System Access

The department uses an information system called the Agency Wide Accounting and Client System (AWACS) to process general vendor and provider payments. The prior audit identified excessive access to add, change, or delete vendor information. We recommended the department periodically review the AWACS user access role

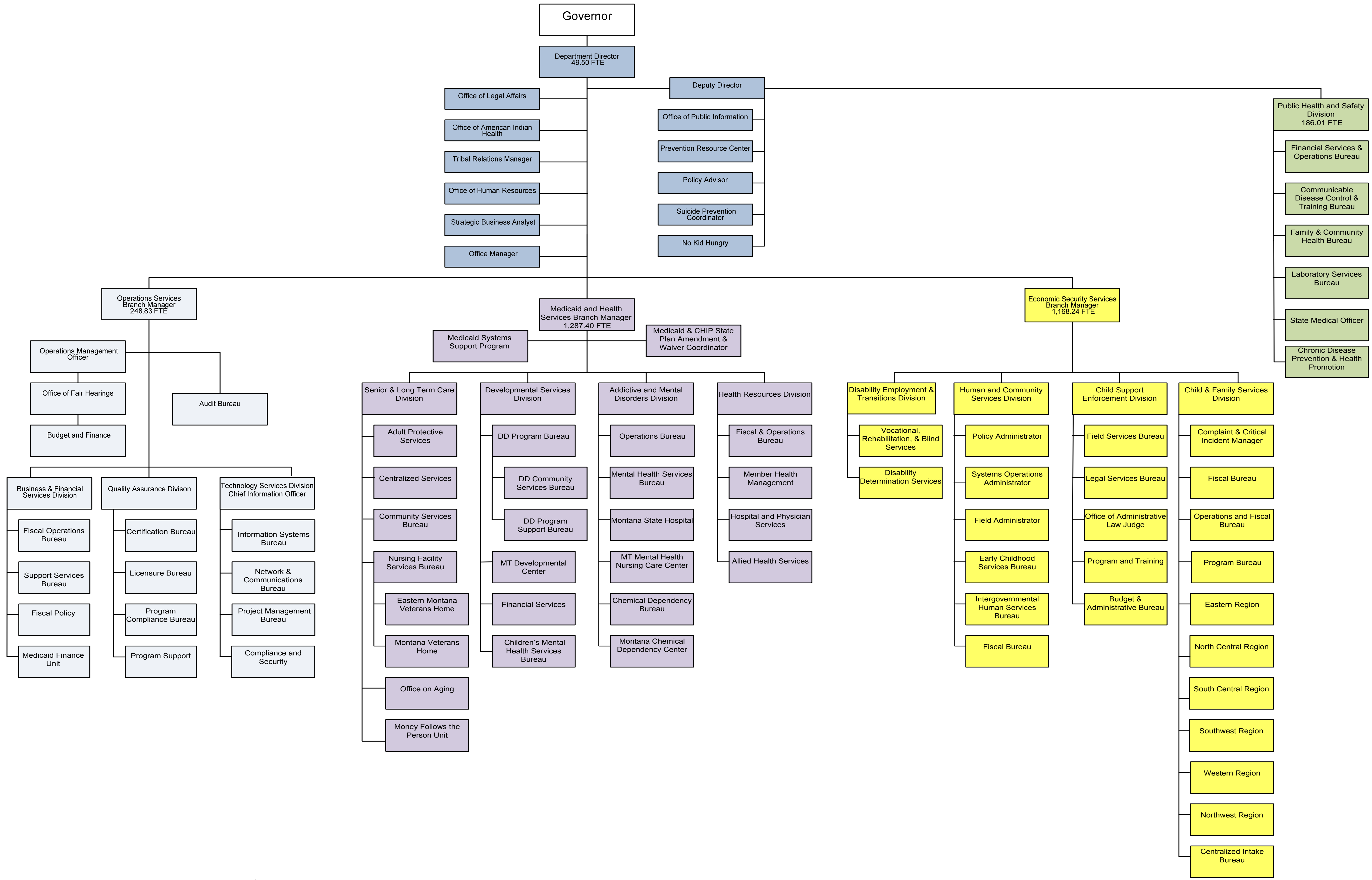
categories to determine appropriateness and removed unnecessary access. As of September 2015, the department removed unnecessary access, but since doing so has not conducted a review of user access to the system. Department staff represent a plan was designed to implement the review procedures, but the procedure was not included in the schedule of operations for the audit period, and was therefore overlooked. Department staff have included the process in the schedule of operations for the next biennium. We make no further recommendation at this time

Foster Care Contracts

The prior audit recommended the department categorize agreements with tribal organizations providing services under the Foster Care system as subrecipients rather than contractors. While the department has applied the federal regulations regarding subrecipients to the tribal organizations for the audit period, the underlying contract agreement has not yet been modified. Because the contracts expire in fiscal year 2018, and the department intends to include subrecipient language in new agreements, we make no further recommendation at this time.

Figure 3

Department of Public Health and Human Services
Organizational Chart by Bureau



Source: Department of Public Health and Human Services

Chapter II – Findings and Recommendations

Federal Programs

The Department of Public Health and Human Services (department) spent approximately $1.95 billion in fiscal year 2017, and $1.51 billion in fiscal year 2016, in federal funds administering a wide spectrum of social service and health programs for the state of Montana. The programs include Medicaid, foster care and adoption, vocational rehabilitation, disability services, child support enforcement activities, public health services, including communicable disease control and preservation of public health through chronic disease prevention. The majority of recommendations in this report are related to federal programs administered by the department. In total, we identified over $1 million in costs resulting from a violation or probable violation of a federal regulation. These costs are commonly referred to as questioned costs.

Federal regulations require recipients of federal assistance to establish and maintain effective internal control to provide reasonable assurance the federal award is being administered in compliance with statutes, regulations, and the terms and conditions of the federal award. Internal controls are processes and procedures that provide management with reasonable assurance it will achieve its objectives related to compliance. Recommendations 1, 2, 4, 6, 7, 8, 9, and 11 address improvements needed in the department's internal controls for the federal programs it administers.

Cost Allocation

The department did not follow its federally approved cost allocation plan and does not consider the content of grant award letter restrictions in the cost allocation process.

Federal regulations require the department, as the public assistance agency of the state, to develop, document, and implement a cost allocation plan, which is a process by which costs benefitting more than one program or activity are identified and allocated on a consistent and equitable basis. The cost allocation plan discusses both direct and indirect cost pools. Direct costs are recorded to a single project or program, while indirect costs are authorized for allocation to specified projects or programs. Regardless of classification as a direct or indirect cost, to be allowable under federal regulations, the federal program must directly benefit from the underlying activity. For example, a cost allowable to a single program as a direct cost could become unallowable if allocated as an indirect cost to other programs.

The most recent changes to the department's cost allocation plan were approved by the federal government in April 2016. Monthly, the department allocates over $10 million in costs to various state and federal programs. The next two sections discuss how the department can improve processes and compliance with the requirements in the plan.

Indirect Cost Pools

The current cost allocation plan includes over 100 indirect cost pools, each of which specify the costs included and the method for allocation to specific federal and state programs. Composition of each pool varies, but could include costs for salaries, fringe benefits, travel, and other operational costs. During the audit, we reviewed one month's allocation methodology for 24 indirect cost pools, and compared the allocation to the cost allocation plan. We identified the following exceptions to compliance with the cost allocation plan, some of which led to questioned costs:

- Expenses for the *Business and Financial Services Division Administrator Indirect Cost Pool* were allocated equally to four programs, including approximately $92,800 to Medicaid, while the cost allocation plan specified equal allocation to three programs, not including Medicaid.
- Costs for the *Communicable Disease Control Bureau Chief Indirect Cost Pool*, the *Disability Services Division Developmental Disability Formula IV Indirect Cost Pool* (DD Formula IV), and the *Chronic Disease and Health Promotions Bureau Chief Indirect Cost Pool* are each being allocated as separate indirect cost pools, but none are listed as a separate cost pool in the cost allocation plan. The DD Formula IV cost pool allocated approximately $18,200 to the Medicaid program and approximately $43,800 to the Social Services Block Grant program during the audit period.
- The cost allocation plan includes, as an indirect cost pool, the *Technology Services Division's Document Management System Indirect Cost Pool*. While the description discusses the Children's Health Insurance Program (CHIP) as a participant, the allocation methodology outlined in the plan does not include CHIP. The department allocated approximately $6,300 to CHIP during the audit period.
- The cost allocation plan lists the *Senior Epidemiologist Direct Cost Pool*, but the department treated this cost pool as an indirect pool and allocated approximately $5,000 monthly costs in this pool to 55 projects for the month tested. Individual monthly project allocations ranged from $7 to $565.
- Costs for *Business and Financial Services Division Cars Indirect Cost Pool* were allocated based on the use of four cars maintained in Helena, while the cost allocation plan specifies costs associated with this pool be allocated based on county office vehicle mileage reports.

As a result, the department is not in compliance with its federally approved cost allocation plan.

The cost allocation process is a recurring monthly cycle. If procedures to allocate costs are established in a manner inconsistent with the approved cost allocation plan, unauthorized allocation is likely to recur for the following periods. Additionally, as the department makes organizational changes, if the cost allocation plan is not also changed timely, the various programs are over- or under-allocated costs from which the programs are benefitting from.

The department indicated their normal process is to make incremental changes to the cost allocation plan. When waiting for the most recently submitted cost allocation plan to be approved, the department continues to make business process changes that could also change the allocation of indirect costs. The department says changes to cost allocation methodologies are tracked and submitted with the next version of the cost allocation plan. However, some of the allocation methods have been in use for a period of several years but those changes are not reflected in the cost allocation plan. In addition, without explicit permission from the federal government to make changes to allocation methodologies, the department should apply only those methodologies in its most recently approved cost allocation plan.

Based on the number of discrepancies between the approved cost allocation plan and the department's allocation of indirect costs, additional discrepancies not identified in our sample likely exist. In addition, these discrepancies could include additional unallowable costs and could potentially impact all programs administered by the department.

Limitations in Grant Awards

The department administers the federal Immunization Cooperative Agreements program which aims to reduce and ultimately eliminate vaccine preventable diseases by increasing and maintaining high immunization coverage. The grant award letter for the period April 2017 to June 2018 specifies indirect costs for the Immunization program are limited to $9,049. Although program staff have been working to obtain modifications to the grant award letter, as of June 2017 authority for indirect costs remained limited. Between April and June 2017, as part of the regular cost allocation process, the department recorded $76,011 in indirect costs to this Immunization grant. As a result, we question $66,962 in unallowable costs charged to the Immunization award as of June 30, 2017.

While documented cost allocation procedures include monthly consideration of the newly identified limitations in individual grant award letters, the limitation specified in the Immunization grant award letter was not put into place as part of the April, May, or June allocation processes. Although our audit only identified the limitation for

the Immunization program, without specifically considering individual grant award letter content the department risks charging unallowable costs to all federal awards it administers.

Summary

Federal regulations require we report identified federal questioned costs in excess of $25,000 as part of the state's Single Audit. As federal government agencies work with the state in regards to reported federal findings, the department may be required to repay the identified questioned costs as summarized on pages 12 and 13.

Department staff point to a variety of reasons for inconsistencies in applying the cost allocation plan requirements, including the complexity in the document and difficulty in keeping up with changes as the department staff responsibilities change.

Recommendation #1

We recommend the Department of Public Health and Human Services:

A. *Review all cost pools to ensure department procedures align with cost allocation plan requirements and indirect cost limitations specified in federal grant award letters.*

B. *Allocate costs as specified in the cost allocation plan and federal grant award letter restrictions, as required by federal regulations.*

Cash Management

The department did not comply with the Treasury State Agreement or otherwise minimize the time between incurring expenditures and seeking reimbursement for five of its federal programs, as required by federal regulations.

Federal regulations require the department to minimize the time between payment of expenditures and receiving federal funds to ensure the draws are revenue-neutral for both state and federal governments. For selected large federal programs, the Department of Administration enters into an agreement with the federal government, known as the Treasury-State Agreement (TSA), which directs when and how reimbursement is requested.

Non-TSA Awards

Department policy for non-TSA federal programs is to seek reimbursement when the department has incurred $20,000 in federal program costs, or at least quarterly. We tested the department's compliance with this policy for the Adoption, Child Care and Development Fund (CCDF), Foster Care, Immunization, Weatherization, and Vocational Rehabilitation programs.

We performed a sample of non-TSA cash draws to determine whether the program's cash balance was considered, and whether the amount of the federal draw request was supported. We also analyzed daily cash balances for each of the programs and noted instances where federal draw requests resulted in excess cash on the state's accounting records for a period of time. In addition, we identified instances where the cash balance in the federal program account was negative $20,000, but a reimbursement request was not executed by the department. For all instances where federal draws were not executed, we confirmed federal grant authority existed on the federal draw system indicating a timely cash draw could have occurred. The number of instances where the time between payment of expenditures and receipt of federal funds was not minimized for non-TSA awards is summarized in the table below.

Table 2

Untimely Draws for Non-TSA Programs for the Two Fiscal Years Ended June 30, 2017

	Excess Cash Draws			Insufficient Cash Draws		
Program	Instances of Excess Cash	Range of Days of Excess Cash	Highest Amount of Excess Cash Within Range	Instances of Expenditures in Excess of $20,000 with no Cash Draw	Range of Days of Negative Cash	Highest Amount of Negative Cash Within Range
Adoption	3	6 to 19	$110,820	1	12	$77,310
Foster Care	2	30 to 31	$345,400	3	6 to 13	$1,485,070
Weatherization				1	13	$81,330
CCDF	5	7 to 15	$1,673,670	9	5 to 53	$1,739,430

Source: Compiled by the Legislative Audit Division from department records.

TSA Awards

The TSA prescribes the specific method of drawing down reimbursement funds for the department's Medicaid, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), Temporary Assistance for Needy Families (TANF), and Low Income Home Energy Assistance Program (LIHEAP) federal programs. For these programs, we sampled three cash draws from fiscal years 2016 and 2017, for a total of

six cash draws per program. We found, with the exception of LIHEAP, the programs were in compliance with the TSA. For LIHEAP, we determined the program was not in compliance with the TSA during either fiscal year 2016 or 2017 because the department used a four-day clearance pattern for warrants rather than the 5-day clearance pattern specified in the TSA. Per department personnel, staff were not aware of the requirements outlined in the TSA.

For TSA awards, we also conducted reviews to determine whether the cash flow activity was properly recorded on spreadsheets provided by the Department of Administration to demonstrate statewide compliance with the TSA, and noted the following:

- The 2016 Medicaid Benefits spreadsheet sent to Department of Administration included a transaction that was incorrectly recorded, resulting in a $1 million misstatement on the spreadsheet.
- For the WIC program, we found one instance out of six transactions reviewed where the revenue received was not recorded on the spreadsheet for the correct day.
- For the LIHEAP program, we found most expenditure transactions were not recorded on the spreadsheets for the correct day. The department routinely recorded the expenditures on the day the revenue was received rather than when expenditures were incurred.

Accurate completion of the spreadsheets is important because the spreadsheets are used to calculate whether the state or federal government is owed interest from their annual cash transactions.

In addition to the noncompliance discussed above, we also identified an internal control deficiency related to the TANF and LIHEAP programs. To ensure the department is drawing funds correctly, reconciling to the state's accounting records, and correctly filling out the spreadsheets submitted to the Department of Administration, the department completes monthly reconciliations of spreadsheet data to the state's accounting records for all programs under the TSA. During our testing we found the department did not complete reconciliations for the LIHEAP or TANF programs. While a type of reconciliation was completed for TANF, it did not accomplish the purpose of the reconciliation.

Summary

The department has not complied with federal requirements to minimize the time between incurring expenditures and receiving federal reimbursement funds, including adhering to the requirements of the TSA. Department staff point to several reasons for the inconsistent and inaccurate application of their cash draw processes, including issues related to staff turnover and vacant positions. According to the department, the

division in charge of these cash flow processes has experienced significant turnover during the past two years, including two employee retirements and four voluntary employment terminations or changes. Other than two staff with 8 years of experience, the remaining five staff each have 1.5 or less years of experience with the division. During times of turnover or when staff are less experienced, a commitment to training and cross-training is necessary.

Due to changes in federal regulations, only those major federal programs meeting specific risk criteria are audited. As such, there are other federal award programs we did not review as part of this audit. However, issues discussed above for each Non-TSA and TSA awards could apply to those federal programs as well.

RECOMMENDATION #2

We recommend the Department of Public Health and Human Services:

A. *Establish procedures to ensure staff are properly cross-trained in order to execute cash reimbursement requests for its federal programs in a timely manner, as required by the Treasury State Agreement and federal regulations.*

B. *Establish procedures to ensure staff are properly trained regarding the completion of Treasury State Agreement cash spreadsheets.*

C. *Comply with the Treasury State Agreement for the Low Income Home Energy Assistance Program, as required by federal regulations.*

Unallowable Costs

The department did not follow federal regulations and state procurement policies when incurring approximately $3 million in costs for nonmedical services for the Foster Care program.

The Foster Care program uses state and federal moneys to provide safe and stable out-of-home care to children at substantial risk of abuse, neglect, or abandonment. As allowed by federal regulations, the department can use a portion of TANF funds to pay costs associated with children in Foster Care.

Federal regulations require the department follow the same state procurement policies and procedures they use for procurements from their nonfederal funds. When proper procurement procedures are not followed, federal regulations further specify the costs incurred are considered unallowable uses of federal funds. The department is delegated

certain purchasing authority from the Department of Administration's Procurement Bureau. Under the delegation agreement, the department may use the following purchasing methods:

- **Small Purchases** – for total contract value of $5,000 or less, the department may choose a purchasing technique that best meets its needs.
- **Limited Solicitations** – for total contract value between $5,001 and $25,000, the department must obtain and document prices from a minimum of three viable sources.
- **Formal Competition** – for total contract value between $25,001 and $200,000, the department must use either an invitation for bid or request for proposal process.
- **Sole Source** – for total contract value up to $200,000, the department determines whether a purchase qualifies as sole source.

Federal regulations also required a competitive process for all procurements in excess of $150,000.

During the audit, department staff disclosed they had identified approximately $2.7 million in payments to 91 vendors using state and federal sources. These costs were paid from the treasury without underlying service contracts. We requested and reviewed the information for the three top paid vendors which were individually paid between $187,000 and $505,000 during fiscal year 2017. We also reviewed service code documentation for the three vendors, and determined the services were for one-on-one supervision of youth, chemical dependency evaluations, urine analyses, and support services for a child in placement for the Foster Care program. Although there is a statutory exception for services from health care providers, the costs incurred do not fall under the exception. Department staff are uncertain why these vendors were used to provide services without following the state's procurement laws and policies.

As a result of our analysis, we identified unallowable federal costs for the TANF program for services without a contract totaling approximately $274,300. However, for all 91 vendors paid without an underlying agreement, total expenses incurred by the TANF program were approximately $640,900. As such, total questioned costs could be as high as $640,900 if other vendors were compensated for services for which there is not an exclusion under state law.

For the three vendors reviewed, in addition to the federal funds, the department used general fund moneys to pay nearly $700,000 in services where a contract did not exist. These services, as well as an additional $1.2 million paid to the remaining 88 vendors whose activity we did not review, were also obtained without following the state's procurement laws and policies.

RECOMMENDATION #3

We recommend the Department of Public Health and Human Services comply with state law and federal regulations by following state procurement policies to obtain services for the Temporary Assistance for Needy Families and Foster Care programs.

Medicaid

Medicaid is the largest Federal grant program both in the state and in the nation, providing payments for medical assistance to low-income individuals. Federal expenditures for the Medicaid program exceed $2.4 billion for the audit period. This is an increase of approximately 51 percent from the prior audit period, mainly due to Medicaid expansion. The federal Affordable Care Act (ACA) created a new eligibility group for low income individuals not otherwise qualifying for mandatory coverage under Medicaid. During the first year of operations under the ACA, the federal government conducted quarterly reviews of eligibility and claims data for each state entity. As such, audit guidance promulgated by the federal government required our audit to focus on non-ACA eligibility determinations. For all other audit procedures, we considered the department's procedures and reporting for both ACA and non-ACA populations.

The following four sections discuss needed improvements in controls and compliance with federal regulations for the Medicaid program.

Provider Agreements

Improvements are needed in the department's internal controls to obtain agreements or disclosures required for providers or organizations furnishing Medicaid services.

As the state Medicaid agency and in accordance with federal regulations, the department must have an agreement with each provider or organization (provider) furnishing services under the Medicaid state plan. As part of the agreement, the provider must disclose information about its ownership and control, business transactions, and persons convicted of crimes. Federal regulations indicate the federal government participation in payment is not available for Medicaid services rendered by providers who do not have an agreement with the state Medicaid agency or who fail to comply with the disclosure requirements. Disclosure requirements outlined in

the federal regulations include ownership interest, business transactions, and persons convicted of crimes.

From a list of nearly 1,000 Medicaid providers, we selected a sample of twenty to determine whether provider agreements existed and whether required disclosures were included in the documents. When support was requested in late June, the department was not able to provide us with the agreement for twelve of the twenty Medicaid providers tested. In mid-August, we communicated these exceptions in writing, and in early October the department provided all but one of the Medicaid provider agreements. At that time, two other agreements provided did not contain the federally required disclosures. Just prior to the completion of the audit in October, the final pieces of information were delivered to us.

Because the department could not readily produce the provider agreements when initially requested, it is possible this information does not exist for all providers. This means there is risk providers are improperly receiving payment for services provided under the Medicaid program. The department's internal control procedures are not adequate to ensure provider agreements and required federal disclosures are maintained. Had the department been unable to provide the agreements, it would have resulted in $6.8 million in questioned costs charged to the Medicaid program.

Recommendation #4

We recommend the Department of Public Health and Human Services enhance internal controls to ensure provider agreements are obtained and include disclosures regarding ownership and control, business transactions, and persons convicted of crimes, as required by federal regulations.

Referrals to the Medicaid Fraud Control Unit

Suspected cases of provider fraud were not referred to the Medicaid Fraud Control Unit as required by federal regulations.

The Surveillance Utilization Review Section (SURS) exists to protect the integrity of Montana Medicaid from fraud, waste, and abuse. SURS performs retrospective reviews of paid claims, recovers identified overpayments, and educates new medical providers. In addition, the state is required to maintain a Medicaid Fraud Control Unit (MFCU), the mission of which is to investigate and prosecute fraud by Medicaid

providers. Montana's MFCU is a unit within the Division of Criminal Investigations at the Department of Justice. As required by federal regulations and the state plan, there is an agreement between the department and the Department of Justice.

If the findings of a preliminary SURS investigation give the department reason to believe an incident of fraud or abuse by a Medicaid provider has occurred, federal regulations require referral of suspected fraud to the MFCU. If, based on further investigation by the department, suspected fraud is determined to be a credible allegation of fraud, the department must then consider the suspension of payments to the Medicaid provider. According to federal regulations, there is a substantive difference between the threshold level of certainty or proof necessary to refer the suspected fraud to MFCU and a heightened threshold for suspension of payments based on a determination of a credible allegation of fraud. An investigation conducted by MFCU is one mechanism which could accumulate the heightened level of reliable evidence, and thus result in a credible allegation of fraud requiring the consideration of suspending payment to Medicaid providers.

When SURS identifies overpayments greater than $5,000, the case is discussed by the department's Medicaid Review Committee. Overpayments could be due to either error or fraud. We obtained and reviewed the minutes of all Medicaid Review Committee meetings held during the audit period. Of the 37 cases discussed, 8 cases were questioned by meeting attendees for fraud and only 1 of these questioned cases was referred to MFCU. For the remaining 7 cases that were questioned for fraud, the meeting minutes indicate that they were not referred to MFCU because they determined there was no credible allegation of fraud.

Because fraud was suspected, these seven additional cases should have been referred to MFCU. Department staff indicated the MFCU personnel participation in the Medicaid Review Committee meetings was verbal referral which met the federal requirements. However, the agreement between the department and MFCU specifies referrals to the MFCU be in writing. There is no indication in the Medicaid Review Committee minutes that MFCU staff considered these discussions to be verbal referrals. The August 2016 minutes specifically document MFCU staff saying referral was not taking place at this time. Because the department did not refer suspected cases of fraud to MFCU in writing, the department has not complied with federal requirements for the audit period.

Recommendation #5

We recommend the Department of Public Health and Human Services refer all suspected cases of Medicaid fraud to the Medicaid Fraud Control Unit, as required by federal regulations.

Automated Data Processing (ADP) Monitoring

A biennial review of ADP systems used to administer Medicaid and other federal programs was not completed, as required by federal regulations.

The department must maintain a program for conducting periodic risk analyses to ensure appropriate, cost effective safeguards are incorporated into new and existing information systems used to administer federal programs on behalf of the federal Department of Health and Human Services (HHS). HHS programs administered by the department include Medicaid, Child Support Enforcement, Foster Care, Adoption, and the Children's Health Insurance programs.

Our prior audit contained a recommendation to complete risk analyses and biennial reviews over ADP systems as required by federal regulations. We noted the department did implement a more formalized risk assessment process, and identified approximately 100 ADP systems in use. Approximately 70 of those systems contain electronic public health information. From the department's list of 70 completed ADP system reviews, we selected seven for testing and found documentation was missing or incomplete for six of the reviews. Without documentation to confirm each element of the review was conducted, department staff were unable to demonstrate those portions of the ADP review were completed. In addition, we identified at least 5 systems used in the administration of HHS programs that did not receive an ADP review during the biennium. Lack of review puts the department at risk of making inappropriate eligibility determinations or benefit calculations for a variety of federal programs.

Due to limited staff resources, department staff represented they focused on the 70 ADP systems which contain electronic public health information. However, the federal requirement is to review all ADP systems used to administer HHS programs, not only systems containing electronic public health information.

Recommendation #6

We recommend the Department of Public Health and Human Services:

A. *Modify internal controls to ensure documentation supporting Automated Data Processing reviews contains all necessary information.*

B. *Comply with federal regulations by completing biennial reviews of all Automated Data Processing systems used in administering programs on behalf of the federal Department of Health and Human Services.*

Quarterly Reporting

The department does not have adequate controls in place over federal reporting of Medicaid expenditures.

The quarterly CMS 64 reports are a summary of expenditures and are a major report submitted to the federal government for Medicaid. If the data submitted in the CMS 64 reports is not reliable, the department risks noncompliance with federal regulations.

We reviewed four of eight CMS 64 reports submitted for the Medicaid program during the audit period. Two reports were submitted timely, but were later resubmitted at a much later date due to significant errors identified by the federal government in their review. These errors are summarized in Table 3.

Table 3
Errors in Medicaid CMS 64 Reports
Fiscal Years 2016 and 2017

Quarterly Report and Incorrect Elements	Original Submission	Corrected Submission	Difference
December 2015			
Total Medicaid Assistance Payments	$55,895,910	$270,297,146	$214,401,236
Federal Share	$38,354,496	$182,790,166	$144,435,670
September 2016			
Federal Share	$262,580,380	$234,792,059	$27,788,321

Source: Compiled by Legislative Audit Division from department records.

During the time that these reports were submitted, there was turnover in the staff responsible for their completion and submission. At the same time, complex modifications to standard department procedures used to compile expenditure data were necessary to implement reporting requirements for the Affordable Care Act population. To accurately report, the department should ensure procedures are established and documented to prevent errors when turnover occurs. The department has already implemented changes in

fiscal year 2017 to address this concern, including staffing changes and cross-training of staff.

Recommendation #7

We recommend the Department of Public Health and Human Services document internal control procedures to ensure accuracy of CMS 64 reporting for Medicaid.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

The objective of the WIC program is to provide supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development. Currently, the program provides benefits to approximately 58,000 participants. The department contracts with county health departments, nonprofit organizations, and Indian tribes throughout the state to provide services to WIC participants. Benefits are provided via Food Instruments and Cost Value Vouchers which participants can use as cash payment for certain foods at more than 190 participating vendors. Vendors subsequently obtain reimbursement from the financial institution, or WIC bank, also under contract with the department. For purposes of this report, we will refer to both types of benefits as food instruments.

The following two sections discuss how the department should improve compliance with federal program requirements.

Payment for Voided Food Instruments

The department does not have control procedures in place to ensure voided food instruments are not subsequently paid, resulting in $22,800 in questioned costs for the audit period.

Once issued, WIC food instruments can be voided by clinic staff or department personnel if the food instrument is deemed no longer valid. As an example, a WIC staff member could void a food instrument if it was lost or stolen because benefits would not go to an eligible individual if the food instrument was redeemed. According to the WIC state plan, voided program benefits will be rejected by the WIC bank. Federal regulations require the state follow its WIC state plan.

During the audit, we obtained a listing of all food instruments issued between July 1, 2015, and April 10, 2017. We analyzed the data and identified 731 voided benefits not rejected by the WIC bank, totaling approximately $20,000. Of these, over 500 food instruments were voided 8 days or more prior to being cashed. Assuming a steady rate of occurrence for the audit period, we project total voided, yet subsequently redeemed, benefits at approximately $22,800 during the period under audit. As a result, we question $22,800 in WIC program costs.

The data used for our analysis is readily available to program staff. However, program staff indicate they do not review WIC benefit data for these types of issues. The analysis we conducted was a comparison of the date voided and the date the food instrument was cashed, which took a very short time to complete. Conducting data reviews on their own, the department could identify compliance issues or other cost savings to the WIC program. The department's new electronic benefit system implemented in September 2017 allows for this type of analysis.

Recommendation #8

We recommend the Department of Public Health and Human Services:

A. *Develop internal controls to ensure voided benefits for the Special Supplemental Nutrition Program for Women, Infants, and Children are not subsequently paid by the WIC bank, as required by the state plan and federal regulations.*

B. *Reimburse the WIC bank only for valid food instruments, as required by federal regulations.*

Disposition of Food Instruments

The department does not have procedures in place to account for the ultimate disposition of WIC food instruments as required by federal regulations.

Federal regulations require the department to account for the disposition of all food instruments as either issued or voided, and as either redeemed or unredeemed. Further, redeemed food instruments and cash-value vouchers must be subclassified as validly issued, lost, stolen, expired, duplicate, or not matching valid enrollment records.

Through review of documentation and discussions with program personnel, we noted the program does not determine and account for the ultimate disposition of WIC benefits. Identifying the ultimate disposition of WIC benefits helps ensure that

complete and accurate data is being reported, and also provides a mechanism to aid the department in identifying inappropriate or fraudulent benefit payments. Complete identification of food instrument disposition would also allow the department to identify patterns in the data, such as repeated requests for duplicate food instruments, which could be an indicator of fraudulent benefit payments. Without procedures in place to identify and review the ultimate disposition of all food instruments, there is an increased risk that inappropriate or fraudulent benefit payments will not be detected by WIC program staff. Also, the department may be liable to the federal government for any claims against them for not accounting for the disposition of all redeemed food instruments.

WIC program personnel indicated the new electronic benefit transaction system, implemented in September 2017, will change how redemption data is accounted for.

Recommendation #9

We recommend the Department of Public Health and Human Services:

A. *Develop internal controls to account for the disposition of all food instruments and cash-value vouchers as required by federal regulations.*

B. *Account for the disposition of food instruments and cash-value vouchers as either issued or voided, redeemed or unredeemed, including applicable subclassifications, in accordance with federal regulations.*

Temporary Assistance for Needy Families

The department does not use income information from the Internal Revenue Service in making eligibility determinations.

The Temporary Assistance for Needy Families (TANF) program objectives are to provide time-limited assistance to needy families with children so the children may be cared for in their own homes, and to end dependence on government benefits by promoting job preparation, work, and marriage. During the audit period, the department disbursed over $50 million in federal funds to TANF families.

TANF benefit amounts are determined by the family's income and size and benefits are limited to 60 months in an adult's lifetime. Federal regulations require the department to obtain income information from the Internal Revenue Service (IRS). Further, federal regulations specify the department must review and compare the information

obtained against information contained in TANF case records to determine whether it affects the individuals' eligibility or amount of assistance.

Although the department obtains the required IRS information through a download twice per year, the information is not subsequently used by the department in evaluating eligibility and assistance amounts. Current procedures are to download the IRS information onto a laptop computer which is then locked in a file cabinet until the information is destroyed without any review of the information. Department staff indicate the IRS informed them they were required to download the information but did not need to further utilize it. However, the TANF program is governed by the federal Administration for Children & Families, a division of the federal Health and Human Services agency, whose rules do require use of the IRS data. In addition, the department cited staff shortages as a reason they chose to follow the IRS advice.

The department's failure to review and use the IRS income information resulted in noncompliance with federal regulations and increases the risk that improper eligibility assessments, as well as improper level of assistance, occurred during fiscal years 2016 and 2017. Department staff indicate the process will next be completed in early 2018.

Recommendation #10

We recommend the Department of Public Health and Human Services comply with federal regulations for the Temporary Assistance for Needy Families program by comparing income information obtained from the Internal Revenue Service to information contained in individual case records in order to determine the effect, if any, on individuals' eligibility or amount of assistance.

Child Care Development Fund Procedures for Recovering Fraudulent Overpayments

The department did not follow their policy, and as a result, did not seek recovery for fraudulent child care overpayments, as required by federal regulations.

The Child Care and Development Fund (CCDF) aims to increase the availability, affordability, and quality of child care services. Funds are used to subsidize child care for low-income families when the parents are working or attending training or educational programs.

Federal regulations require the department to recover child care payments that are the result of fraud. CCDF program personnel indicated their policy is to report all overpayments to the Business and Financial Services Division (BFSD). BFSD in turn applies its accounts receivable procedures to obtain repayment from the client. During the audit period, CCDF staff identified a total of eight overpayments ranging from $131 to $2,292 resulting from fraud. Of those eight overpayments, we identified four instances where recovery was not sought because the information was not subsequently reported to BFSD as required by their policy. By not attempting to recover all fraudulent overpayments, the department is not in compliance with federal regulations. Coordination between CCDF and BFSD staff can be improved to ensure all recoveries to which the program is entitled are received.

Recommendation #11

We recommend the Department of Public Health and Human Services comply with federal regulations by:

A. *Developing internal control procedures to ensure coordination between program and Business and Financial Services Division staffs for recovering Child Care Development Fund overpayments resulting from fraud.*

B. *Seek timely recovery for all identified fraudulent child care overpayments as required by federal regulations.*

Vocational Rehabilitation

The department inappropriately used federal funds to pay wages for staff placed on long-term administrative leave.

The department administers the federal Vocational Rehabilitation program, the objective of which is to provide workforce development and vocational rehabilitation services for individuals with disabilities in a comprehensive and coordinated method across the state.

In July 2017, two department staff were placed on paid administrative leave while the department conducted an investigation of the Vocational Rehabilitation program. Department administration believe the Vocational Rehabilitation program was mismanaged because the department continued to record approximately $4.6 million in expenditures in the federal special revenue fund when no further federal funds were available. By the end of each fiscal year, the department had identified alternative

funding authority and moved these costs to the General Fund. From July to mid-October 2017, approximately $58,270 in wages for these employees were charged to the federal Vocational Rehabilitation program because no changes were made to how the employees' payroll was processed. As of mid-October, there has been no change in employee status recorded in the state's accounting system, and the employees continue to be paid partially with federal funds.

Federal regulations specify costs are allowable for a federal award if they are necessary and reasonable for the performance of the federal award. Department staff believe these administrative costs are a normal and reasonable charge, which the department says is a standard and regular occurrence for the agency. However, federal regulations specify costs are reasonable if they do not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. There is no benefit to the Vocational Rehabilitation program for the staff who are on paid administrative leave because the department is paying other staff, effective July 2017, to administer the program. As such, we do not consider long-term administrative leave to be necessary for the program; therefore, the costs associated with staff on administrative leave are not an allowable use of federal funds. We question an estimated $58,270 in Vocational Rehabilitation program costs, the amount charged to the program as of October 2017. Questioned costs will continue to accumulate until salaries for these staff are no longer charged to the program.

Recommendation #12

We recommend the Department of Public Health and Human Services discontinue using federal Vocational Rehabilitation funds to pay the cost of wages associated with staff placed on administrative leave.

Revenue Estimates

Department controls did not prevent or detect and correct significant errors in fiscal year 2017 revenue estimates.

Historically, over 95 percent of the department's revenue is related to federal grant awards. The department also collects revenues for the general fund; the monies are limited and generally result from operations of the state facilities such as the Montana Developmental Center and the two veteran's homes. For the audit period, total general fund revenues for the department were less than $27 million annually. Revenue

estimates for each the general fund and federal special revenue fund should reflect only those monies the department anticipates collecting for each year. Statewide revenue projections focus on departments whose main function is revenue collection. The department's main function is not revenue collection.

During the audit, we identified two instances where department procedures did not prevent or detect and correct in a timely manner, material errors in revenue estimates, as summarized below.

- Chapter 364, Laws of 2017, established the hospital community benefit assessment, a new temporary revenue source for the General Fund. The first of three annual payments was due from hospitals by June 2017. Department staff incorrectly used an unrelated section of the legislation to establish the revenue estimate for the assessment on the state's accounting system, which resulted in revenue estimates for the General fund being overstated by nearly $496 million for fiscal year 2017.
- Department procedures include a review of federal revenue estimates as compared to revenue recognized during the year. The process includes modifying estimates to either increase or decrease balances based on recorded revenue. For fiscal year-end 2017, a substantial federal revenue accrual was processed on the same day the analysis for revenue estimates was completed and was not considered in the analysis. Because the estimates were not later reconsidered, the federal revenue estimate in the Federal Special Revenue Fund is understated by nearly $374 million for fiscal year 2017.

As described on page A-2, these errors resulted in a qualified opinion on the Schedule of Total Revenues and Transfers-In for the fiscal year ended June 30, 2017. Errors in revenue estimates have no impact to actual revenues collected. However, errors in revenue estimates lead a user of the financial schedules to question whether the department collected all monies to which it is entitled. Revenue estimate errors could have been detected prior to fiscal year-end if department controls included a comparison of estimated to actual revenues for all fund types after significant year-end accounting entries were completed.

Recommendation #13

We recommend the Department of Public Health and Human Services establish internal controls to compare estimated to actual revenues for all fund types to ensure revenue estimates reflect the amount of revenue anticipated to be collected by the department.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
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Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Health & Human Services for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles
As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2017, and June 30, 2016, or changes in financial position for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting
In fiscal year 2017, the department recorded a General Fund revenue estimate for the Hospital Community Benefit Assessment totaling more than $500 million when the revenue estimate should have been established as $4.3 million. As a result, General Fund revenue estimates are overstated by approximately $496 million on the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2017.

Also in fiscal year 2017, the department reviewed and modified Federal Special Revenue Fund revenue estimates without considering significant year-end accruals. As a result, Estimated Revenues and Transfers-In on the Schedule of Total Revenues & Transfers-In are understated by $374 million for the fiscal year ended June 30, 2017.

Qualified Opinion on Regulatory Basis of Accounting
In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion" paragraph, the Schedules of Total Revenues & Transfers-In for the fiscal year ended June 30, 2017, presents fairly, in all material respects, the results of operations of the Department of Public Health & Human Services for the fiscal year ended June 30, 2017, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting
In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, and Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2017, and 2016, and

the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2016, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Public Health & Human Services, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017, on our consideration of the Department of Public Health & Human Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena MT

November 14, 2017

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Agency Fund	Permanent Fund
FUND EQUITY: July 1, 2016	$ (48,690,363)	$ 26,847,870	$ (9,004,585)	$ 3,201,891	$ (125,404)	$ 0	$ 217,051,943
PROPERTY HELD IN TRUST: July 1, 2016						$ 1,039,585	
ADDITIONS							
Budgeted Revenues & Transfers-In	26,933,785	53,185,816	1,987,272,633				38,482
Nonbudgeted Revenues & Transfers-In	1,495	7,476,425	(717,594)	1,916,249			14,690,232
Prior Year Revenues & Transfers-In Adjustments	(217,758)	849,253	(28,941,339)				45
Direct Entries to Fund Equity	525,289,152	114,790,988			725,783		
Additions to Property Held in Trust						77,623,000	
Total Additions	552,006,674	176,302,483	1,957,613,701	1,916,249	725,783	77,623,000	14,728,759
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	540,296,930	161,026,912	1,985,200,398		699,165		
Nonbudgeted Expenditures & Transfers-Out	(99,719)	9,629,067	(1,131,142)	1,914,183			8,382,367
Prior Year Expenditures & Transfers-Out Adjustments	(1,320,371)	(99,152)	(31,976,622)				450
Reductions in Property Held in Trust						77,452,856	
Total Reductions	538,876,839	170,556,827	1,952,092,634	1,914,183	699,165	77,452,856	8,382,818
FUND EQUITY: June 30, 2017	$ (35,560,528)	$ 32,593,526	$ (3,483,518)	$ 3,203,957	$ (98,787)	$ 0	$ 223,397,885
PROPERTY HELD IN TRUST: June 30, 2017						$ 1,209,730	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Agency Fund	Permanent Fund
FUND EQUITY: July 1, 2015	$ (42,237,117)	$ 32,508,551	$ (22,304,765)	$ 4,310,618	$ (283,959)	$ 0	$ 197,765,657
PROPERTY HELD IN TRUST: July 1, 2015						$ 938,377	
ADDITIONS							
Budgeted Revenues & Transfers-In	22,375,557	50,071,376	1,529,790,591				38,791
Nonbudgeted Revenues & Transfers-In	155,305	8,100,283	585,597	4,619,829			26,312,216
Prior Year Revenues & Transfers-In Adjustments	(70)	352,371	(6,350,914)				35,059
Direct Entries to Fund Equity	457,384,406	115,142,975	245,651		(409,041)		
Additions to Property Held in Trust						77,588,892	
Total Additions	479,915,198	173,667,006	1,524,270,925	4,619,829	(409,041)	77,588,892	26,386,066
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	493,280,298	165,739,676	1,525,355,913		(567,597)		
Nonbudgeted Expenditures & Transfers-Out	(613,524)	12,034,463	258,734	5,728,556			7,100,239
Prior Year Expenditures & Transfers-Out Adjustments	(6,298,330)	1,553,549	(14,643,902)				(459)
Reductions in Property Held in Trust						77,487,683	
Total Reductions	486,368,444	179,327,687	1,510,970,745	5,728,556	(567,597)	77,487,683	7,099,780
FUND EQUITY: June 30, 2016	$ (48,690,363)	$ 26,847,870	$ (9,004,585)	$ 3,201,891	$ (125,404)	$ 0	$ 217,051,943
PROPERTY HELD IN TRUST: June 30, 2016						$ 1,039,585	

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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	$ 130,863	$ 1,362,773				$ 1,493,637
Taxes	4,350,775					4,350,775
Charges for Services	14,278,858	19,500,727	$ (806,579)			32,973,006
Investment Earnings	(4,147)	147,788		$ 167,537	$ 1,850,200	2,161,378
Fines and Forfeits			597,570			597,570
Monetary Settlements	10,172	16,963,504	4,191,218		12,156,847	33,321,741
Sale of Documents, Merchandise and Property	958	116,040				116,997
Rentals, Leases and Royalties	190	52,003				52,193
Contributions and Premiums	4,727,395					4,727,395
Grants, Contracts, and Donations		14,252,920				14,252,920
Transfers-in	3,160,119	8,419,591	4,028,260	1,748,712	721,712	18,078,394
Federal Indirect Cost Recoveries		83,407	79,303,348			79,386,754
Miscellaneous	57,146	245,554	267,749			570,448
Federal	5,192	367,189	1,870,032,135			1,870,404,516
Total Revenues & Transfers-In	26,717,522	61,511,495	1,957,613,701	1,916,249	14,728,759	2,062,487,725
Less: Nonbudgeted Revenues & Transfers-In	1,495	7,476,425	(717,594)	1,916,249	14,690,232	23,366,808
Prior Year Revenues & Transfers-In Adjustments	(217,758)	849,253	(28,941,339)		45	(28,309,798)
Actual Budgeted Revenues & Transfers-In	26,933,785	53,185,816	1,987,272,633	0	38,482	2,067,430,715
Estimated Revenues & Transfers-In	520,980,959	53,843,658	1,612,754,196		40,000	2,187,618,813
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (494,047,174)	$ (657,842)	$ 374,518,437	$ 0	$ (1,518)	$ (120,188,098)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	$ 53,863	$ 80				$ 53,944
Taxes	(496,755,777)					(496,755,777)
Charges for Services	(2,422,397)	(1,016,035)	$ (812,454)			(4,250,886)
Investment Earnings	(64,147)	113,296			$ (1,518)	47,631
Fines and Forfeits			(2,430)			(2,430)
Monetary Settlements	10,172	402,601	(3,008,913)			(2,596,141)
Sale of Documents, Merchandise and Property	(3,042)	(0)				(3,043)
Rentals, Leases and Royalties	(1,360)	(7,320)				(8,680)
Contributions and Premiums	4,809,768					4,809,768
Grants, Contracts, and Donations		1,828,112				1,828,112
Transfers-in	325,118	(1,966,206)	71,851			(1,569,238)
Federal Indirect Cost Recoveries		(7,395)	10,449,861			10,442,466
Miscellaneous	(1,564)	12,411	(150,849)			(140,003)
Federal	2,192	(17,385)	367,971,371			367,956,178
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (494,047,174)	$ (657,842)	$ 374,518,437	$ 0	$ (1,518)	$ (120,188,098)

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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	$ 111,871	$ 2,241,382				$ 2,353,253
Charges for Services	16,918,509	16,089,762	$ 2,909,912			35,918,183
Investment Earnings	16,711	109,532		$ 147,284	$ 13,390,282	13,663,809
Fines and Forfeits			258,073			258,073
Monetary Settlements		16,895,759	3,476,977		12,294,907	32,667,642
Sale of Documents, Merchandise and Property	1,049	117,384				118,433
Rentals, Leases and Royalties	325	48,636				48,961
Contributions and Premiums	1,735,662					1,735,662
Grants, Contracts, and Donations		16,480,274				16,480,274
Transfers-in	3,573,162	7,128,322	3,862,594	4,472,545	700,878	19,737,501
Federal Indirect Cost Recoveries		81,286	68,435,040			68,516,326
Miscellaneous	172,182	472,096	1,030,997			1,675,275
Federal	1,321	(1,140,402)	1,444,051,679			1,442,912,598
Total Revenues & Transfers-In	22,530,792	58,524,031	1,524,025,274	4,619,829	26,386,066	1,636,085,992
Less: Nonbudgeted Revenues & Transfers-In	155,305	8,100,283	585,597	4,619,829	26,312,216	39,773,230
Prior Year Revenues & Transfers-In Adjustments	(70)	352,371	(6,350,914)		35,059	(5,963,554)
Actual Budgeted Revenues & Transfers-In	22,375,557	50,071,376	1,529,790,591	0	38,791	1,602,276,316
Estimated Revenues & Transfers-In	25,732,405	52,205,491	1,517,148,943		40,000	1,595,126,840
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (3,356,848)	$ (2,134,115)	$ 12,641,648	$ 0	$ (1,209)	$ 7,149,476
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	$ 34,871	$ 11,384				$ 46,255
Charges for Services	(5,537,346)	(3,171,001)	$ 1,648,383			(7,059,964)
Investment Earnings	(43,243)	55,731			$ (1,209)	11,280
Fines and Forfeits			144,422			144,422
Monetary Settlements		807,949	(173,113)			634,836
Sale of Documents, Merchandise and Property	(2,972)					(2,972)
Rentals, Leases and Royalties	(1,180)	(6,714)				(7,894)
Contributions and Premiums	1,555,662					1,555,662
Grants, Contracts, and Donations		25,101				25,101
Transfers-in	637,162	149,380	(233,033)			553,510
Federal Indirect Cost Recoveries		1,460	3,339,250			3,340,710
Miscellaneous	1,877	12,180	(97,751)			(83,695)
Federal	(1,679)	(19,585)	8,013,489			7,992,225
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ (3,356,848)	$ (2,134,115)	$ 12,641,648	$ 0	$ (1,209)	$ 7,149,476

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Addictive & Mental Disorders	Business & Financial Services Division	Child & Family Services	Child Support Enforcement	Developmental Services Division	Director's Office	Disability Employment & Transitions	Health Resources Division
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT								
Personal Services								
Salaries	$ 32,847,653	$ 2,511,769	$ 18,918,509	$ 7,385,277	$ 11,472,772	$ 5,711,286	$ 6,362,175	$ 2,700,107
Employee Benefits	16,185,823	1,053,059	8,530,789	3,047,090	5,259,910	1,549,421	2,781,251	1,059,085
Total	49,033,476	3,564,828	27,449,298	10,432,367	16,732,682	7,260,707	9,143,426	3,759,191
Operating Expenses								
Other Services	12,153,121	3,884,034	2,903,942	453,213	3,866,687	491,845	3,345,850	15,839,350
Supplies & Materials	4,205,593	29,077	272,683	83,700	343,306	52,373	192,421	59,669
Communications	198,869	1,110,026	677,790	356,856	87,980	177,983	260,040	62,951
Travel	280,643	4,315	823,182	18,907	108,339	84,914	212,909	22,913
Rent	2,161,011	250,739	3,102,703	786,001	433,286	192,285	1,034,190	160,038
Utilities	852,504		10,511		312,303	83		
Repair & Maintenance	424,105	11,283	97,896	36,884	90,571	55,828	330,181	8,611
Other Expenses	5,237,691	(8,083,427)	7,866,649	4,606,160	3,358,245	(7,354,484)	1,167,350	22,655,246
Goods Purchased For Resale	94,695							
Total	25,608,231	(2,793,953)	15,755,355	6,341,721	8,600,716	(6,299,174)	6,542,941	38,808,779
Equipment & Intangible Assets								
Equipment	29,950							
Total	29,950							
Capital Outlay								
Buildings	(1,850)							
Total	(1,850)							
Local Assistance								
From State Sources	2,002,324							
Total	2,002,324							
Grants								
From State Sources	4,057,327					63,184		
From Federal Sources	3,869,166		7,870,406			271,207		
From Other Sources								
Grant To Governmental Entities								
Grant To Non-Governmental Ent								
Total	7,926,494		7,870,406			334,391		
Benefits & Claims								
To Individuals	103,209,893		51,077,954		257,598,779		17,822,260	1,239,229,570
From Federal Sources								
Total	103,209,893		51,077,954		257,598,779		17,822,260	1,239,229,570
Transfers-out								
Fund transfers	1,757,212	7,217,125	251,332			165,719	168,806	1,023,113
Total	1,757,212	7,217,125	251,332			165,719	168,806	1,023,113
Debt Service								
Bonds	1,914,183							
Loans	126,208				37,932			
Installment Purchases	3,125	6,938						
Total	2,043,516	6,938			37,932			
Total Expenditures & Transfers-Out	$ 191,609,245	$ 7,994,938	$ 102,404,345	$ 16,774,088	$ 282,970,109	$ 1,461,644	$ 33,677,432	$ 1,282,820,653
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	$ 79,755,471	$ 594,246	$ 60,720,852	$ 4,119,027	$ 90,751,601	$ 347,888	$ 12,095,786	$ 173,835,100
State Special Revenue Fund	20,611,303	1,063	1,990,567	1,320,367	6,648,741	608,693	862,284	75,176,385
Federal Special Revenue Fund	89,328,289	182,505	39,692,926	11,334,694	185,569,766	408,063	20,719,361	1,032,757,849
Debt Service Fund	1,914,183							
Capital Projects Fund								(17,375)
Permanent Fund		7,217,125				97,000		1,068,693
Total Expenditures & Transfers-Out	191,609,245	7,994,938	102,404,345	16,774,088	282,970,109	1,461,644	33,677,432	1,282,820,653
Less: Nonbudgeted Expenditures & Transfers-Out	6,610,554	(1,336,592)	7,773,751	4,291,404	2,391,497	(7,050,566)	1,043,428	18,997,798
Prior Year Expenditures & Transfers-Out Adjustments	(5,042,993)	(14,874)	746,185	(10,629)	(2,774,470)	36,063	13,115	(21,219,261)
Actual Budgeted Expenditures & Transfers-Out	190,041,684	9,346,405	93,884,409	12,493,313	283,353,082	8,476,146	32,620,889	1,285,042,116
Budget Authority	203,373,771	9,488,424	94,063,354	12,569,540	309,262,466	8,862,672	36,839,553	1,312,111,252
Unspent Budget Authority	$ 13,332,087	$ 142,020	$ 178,944	$ 76,227	$ 25,909,383	$ 386,526	$ 4,218,663	$ 27,069,136
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	$ 577,384	$ 217	$ 10,243	$ 400	$ 227,479	$ 14,176	$ 53,484	$ 37,499
State Special Revenue Fund	2,953,741	13,612	80,776	127	1,000,149	28,489	827,176	2,574,712
Federal Special Revenue Fund	9,800,962	128,191	87,926	75,700	24,681,755	343,861	3,338,004	24,456,924
Capital Projects Fund								
Unspent Budget Authority	$ 13,332,087	$ 142,020	$ 178,944	$ 76,227	$ 25,909,383	$ 386,526	$ 4,218,663	$ 27,069,136

	Human and Community Services	Management and Fair Hearings	Medicaid and Health Services Management	Public Health & Safety Division	Quality Assurance Division	Senior & Long-Term Care	Technology Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT								
Personal Services								
Salaries	$ 21,127,118	$ 1,345,413	$ 263,103	$ 10,574,813	$ 4,852,649	$ 9,128,431	$ 4,955,922	$ 140,156,996
Employee Benefits	9,801,395	459,707	81,761	4,181,158	2,067,140	4,662,091	1,773,405	62,493,083
Total	30,928,512	1,805,119	344,864	14,755,971	6,919,788	13,790,522	6,729,328	202,650,079
Operating Expenses								
Other Services	4,899,142	42,515	13,123,513	10,107,388	632,939	5,091,775	25,175,940	102,011,254
Supplies & Materials	490,935	17,096	8	2,793,153	87,905	1,292,897	2,473,396	12,394,214
Communications	1,181,842	14,117	1,310	1,137,785	144,938	111,214	2,724,430	8,248,130
Travel	339,361	2,686	3,262	827,993	290,293	136,499	76,122	3,232,338
Rent	3,134,844	84,261	12,071	835,200	484,525	590,573	373,714	13,635,439
Utilities	28,825			11,931	1,696	151,940		1,369,792
Repair & Maintenance	145,044	2,632	306	333,626	23,167	231,525	1,085,700	2,877,358
Other Expenses	14,194,742	(1,809,758)	(10,886,893)	4,339,294	300,724	2,552,769	(29,616,405)	8,527,903
Goods Purchased For Resale								94,695
Total	24,414,735	(1,646,450)	2,253,577	20,386,369	1,966,187	10,159,192	2,292,897	152,391,123
Equipment & Intangible Assets								
Equipment				52,303		15,153		97,406
Total				52,303		15,153		97,406
Capital Outlay								
Buildings								(1,850)
Total								(1,850)
Local Assistance								
From State Sources								2,002,324
Total								2,002,324
Grants								
From State Sources	2,225,768			4,330,119		6,082,923		16,759,322
From Federal Sources	20,491,812		5,127,336	18,255,370	566,224	6,909,201		63,360,723
From Other Sources				1,132,532				1,132,532
Grant To Governmental Entities				700,001				700,001
Grant To Non-Governmental Ent				16,200				16,200
Total	22,717,580		5,127,336	24,434,222	566,224	12,992,124		81,968,777
Benefits & Claims								
To Individuals	76,982,980			4,186,087		270,212,351		2,020,319,874
From Federal Sources	181,887,149			8,308,472				190,195,621
Total	258,870,128			12,494,559		270,212,351		2,210,515,495
Transfers-out								
Fund transfers	4,019,508	51,227		522,426	2,320,161	3,252,382		20,749,011
Total	4,019,508	51,227		522,426	2,320,161	3,252,382		20,749,011
Debt Service								
Bonds								1,914,183
Loans						61,716		225,856
Installment Purchases								10,063
Total						61,716		2,150,102
Total Expenditures & Transfers-Out	$ 340,950,464	$ 209,896	$ 7,725,778	$ 72,645,850	$ 11,772,360	$ 310,483,440	$ 9,022,225	$ 2,672,522,466
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	$ 36,923,107	$ 182,799	$ 711,597	$ 4,114,458	$ 2,442,417	$ 72,583,278	$ (300,787)	$ 538,876,839
State Special Revenue Fund	5,934,639	1,391	(1,427)	18,359,845	1,008,193	37,529,052	505,730	170,556,827
Federal Special Revenue Fund	298,092,718	25,705	7,015,608	50,171,547	8,321,750	200,371,110	8,100,742	1,952,092,634
Debt Service Fund								1,914,183
Capital Projects Fund							716,540	699,165
Permanent Fund								8,382,818
Total Expenditures & Transfers-Out	340,950,464	209,896	7,725,778	72,645,850	11,772,360	310,483,440	9,022,225	2,672,522,466
Less: Nonbudgeted Expenditures & Transfers-Out	17,771,927	(1,976,670)	(9,345,122)	4,675,309	(709,921)	5,319,353	(29,761,393)	18,694,756
Prior Year Expenditures & Transfers-Out Adjustments	(1,106,506)	814	(2,208,081)	(39,819)	3,341,585	(4,512,769)	(604,054)	(33,395,695)
Actual Budgeted Expenditures & Transfers-Out	324,285,043	2,185,752	19,278,981	68,010,360	9,140,696	309,676,856	39,387,672	2,687,223,405
Budget Authority	336,644,502	2,279,187	21,591,406	76,827,726	9,275,939	326,369,460	93,690,463	2,853,249,715
Unspent Budget Authority	$ 12,359,459	$ 93,435	$ 2,312,426	$ 8,817,366	$ 135,242	$ 16,692,604	$ 54,302,792	$ 166,026,310
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	$ 1,480	$ 31	$ 265	$ 993	$ 165	$ 166,927	$ 19,231	$ 1,109,975
State Special Revenue Fund	230,939	7,135	4,191	937,732	9,922	3,410,992	5,665	12,085,358
Federal Special Revenue Fund	12,127,040	86,269	2,307,970	7,878,641	125,156	13,114,684	45,119,967	143,673,049
Capital Projects Fund							9,157,928	9,157,928
Unspent Budget Authority	$ 12,359,459	$ 93,435	$ 2,312,426	$ 8,817,366	$ 135,242	$ 16,692,604	$ 54,302,792	$ 166,026,310

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Addictive & Mental Disorders	Business & Financial Services Division	Child & Family Services	Child Support Enforcement	Developmental Services Division	Director's Office	Disability Employment & Transitions	Health Resources Division	Human and Community Services	Management and Fair Hearings	Medicaid and Health Services Management	Public Health & Safety Division	Quality Assurance Division	Senior & Long-Term Care	Technology Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT																
Personal Services																
Salaries	$ 30,498,344	$ 2,496,914	$ 16,423,909	$ 7,684,400	$ 13,753,884	$ 5,225,965	$ 6,785,221	$ 2,480,352	$ 20,800,715	$ 1,360,397	$ 309,623	$ 10,069,393	$ 4,819,733	$ 8,940,080	$ 1,056,413	$ 132,705,342
Employee Benefits	13,901,101	945,984	7,114,860	3,047,375	6,148,542	1,246,922	2,800,462	923,391	9,146,846	451,640	96,276	3,825,275	1,945,221	4,315,933	461,620	56,371,446
Total	44,399,444	3,442,898	23,538,769	10,731,775	19,902,426	6,472,887	9,585,683	3,403,742	29,947,560	1,812,037	405,899	13,894,669	6,764,954	13,256,013	1,518,033	189,076,789
Operating Expenses																
Other Services	9,934,107	3,824,613	2,012,313	482,450	4,137,325	587,513	3,388,162	16,490,812	5,931,391	8,285	10,950,652	9,434,486	560,526	5,056,885	10,542,174	83,341,693
Supplies & Materials	4,510,904	64,798	272,485	103,371	726,794	100,519	391,688	51,077	457,228	20,367	919	4,415,978	76,058	1,348,665	3,759,174	16,300,027
Communications	244,115	1,213,066	592,907	389,369	106,968	287,492	266,047	62,467	941,541	8,715	6,132	1,134,123	121,560	115,864	2,612,260	8,102,624
Travel	230,110	17,408	785,823	34,786	194,319	83,187	230,668	17,844	358,533	8,684	12,879	732,130	290,066	86,389	51,934	3,134,759
Rent	1,452,392	238,799	2,915,845	773,205	441,695	175,926	990,167	156,569	3,049,190	93,880	10,777	811,051	479,799	563,391	309,357	12,462,044
Utilities	835,028	146	10,382		318,455				28,367			13,214	742	166,314		1,372,648
Repair & Maintenance	466,745	12,583	75,061	23,766	107,063	11,612	305,381	13,076	811,402	2,793	638	284,298	7,677	325,962	333,772	2,781,829
Other Expenses	4,617,389	(8,451,981)	7,736,207	4,688,578	3,847,161	(6,865,778)	1,282,577	20,374,190	14,449,146	(1,949,748)	(7,225,203)	4,136,401	(725)	2,566,163	(33,090,559)	6,113,817
Goods Purchased For Resale	101,296															101,296
Total	22,392,085	(3,080,567)	14,401,023	6,495,524	9,879,780	(5,619,530)	6,854,690	37,166,036	26,026,798	(1,807,024)	3,756,794	20,961,681	1,535,702	10,229,632	(15,481,888)	133,710,736
Equipment & Intangible Assets																
Equipment	59,740								99,899			1,628,102	5,577	24,108	(117,085)	1,700,341
Intangible Assets															1,471,086	1,471,086
Total	59,740								99,899			1,628,102	5,577	24,108	1,354,001	3,171,426
Capital Outlay																
Buildings	1,110															1,110
Other Improvements														19,250		19,250
Total	1,110													19,250		20,360
Local Assistance																
From State Sources	2,539,877															2,539,877
Total	2,539,877															2,539,877
Grants																
From State Sources	4,181,155					18,726			2,804,438			4,809,869		5,845,663		17,659,850
From Federal Sources	2,095,034		6,596,189			218,749			18,412,362		580,947	19,132,080	548,264	7,323,496		54,907,121
From Other Sources												952,710				952,710
Grant To Governmental Entities												699,999				699,999
Grant To Non-Governmental Ent												113,800				113,800
Total	6,276,190		6,596,189			237,475			21,216,799		580,947	25,708,458	548,264	13,169,159		74,333,480
Benefits & Claims																
To Individuals	94,864,151		41,287,900		260,542,508		15,443,522	829,176,463	69,616,855			4,985,747		258,239,242		1,574,156,387
From State Sources														25,500		25,500
From Federal Sources									175,192,764			8,713,188				183,905,952
Total	94,864,151		41,287,900		260,542,508		15,443,522	829,176,463	244,809,618			13,698,935		258,264,742		1,758,087,838
Transfers-out																
Fund transfers	1,760,774	7,008,780	238,245		2,720,271	102,129	194,707	2,057,653	3,529,831			450,634	400,761	3,565,789		22,029,573
Total	1,760,774	7,008,780	238,245		2,720,271	102,129	194,707	2,057,653	3,529,831			450,634	400,761	3,565,789		22,029,573
Debt Service																
Bonds	1,917,706				3,808,450											5,726,156
Loans	121,667				37,932									61,716		221,315
Installment Purchases	3,125	6,938														10,063
Total	2,042,498	6,938			3,846,382									61,716		5,957,535
Total Expenditures & Transfers-Out	$ 174,335,869	$ 7,378,048	$ 86,062,126	$ 17,227,298	$ 296,891,368	$ 1,192,962	$ 32,078,601	$ 871,803,894	$ 325,630,505	$ 5,013	$ 4,743,640	$ 76,342,478	$ 9,255,258	$ 298,590,408	$ (12,609,854)	$ 2,188,927,615
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund	$ 76,008,404	$ 266,130	$ 51,613,111	$ 4,454,534	$ 93,299,143	$ 130,755	$ 6,389,734	$ 142,926,855	$ 35,940,466	$ 2,724	$ 741,432	$ 4,147,661	$ 2,275,647	$ 70,203,064	$ (2,031,217)	$ 486,368,444
State Special Revenue Fund	22,113,291	14,107	1,860,907	1,188,183	9,358,895	452,826	980,496	77,200,649	5,580,307	25	1,283	22,418,615	631,396	37,603,315	(76,608)	179,327,687
Federal Special Revenue Fund	74,296,468	89,032	32,588,782	11,584,581	190,422,479	518,381	24,708,370	651,554,871	284,109,732	2,265	4,000,926	49,776,203	6,348,216	190,784,029	(9,813,589)	1,510,970,745
Debt Service Fund	1,917,706				3,810,850											5,728,556
Capital Projects Fund			(675)					121,519							(688,441)	(567,597)
Permanent Fund		7,008,780				91,000										7,099,780
Total Expenditures & Transfers-Out	174,335,869	7,378,048	86,062,126	17,227,298	296,891,368	1,192,962	32,078,601	871,803,894	325,630,505	5,013	4,743,640	76,342,478	9,255,258	298,590,408	(12,609,854)	2,188,927,615
Less: Nonbudgeted Expenditures & Transfers-Out	5,779,995	(2,220,948)	7,572,359	4,312,188	6,280,969	(6,567,312)	1,114,032	19,975,596	16,835,692	(1,962,672)	(7,231,420)	7,642,892	262,933	5,572,716	(32,858,551)	24,508,468
Prior Year Expenditures & Transfers-Out Adjustments	675,184	(78,268)	205,250	33,493	1,319,479	4,044	(67,987)	(7,943,472)	(1,024,377)	8,690	(1,085,652)	(1,255,294)	127,095	(2,113,985)	(8,193,342)	(19,389,143)
Actual Budgeted Expenditures & Transfers-Out	167,880,691	9,677,264	78,284,517	12,881,617	289,290,920	7,756,230	31,032,557	859,771,769	309,819,189	1,958,996	13,060,713	69,954,880	8,865,230	295,131,677	28,442,039	2,183,808,290
Budget Authority	182,246,881	9,996,557	79,692,188	12,989,980	302,677,157	8,186,526	34,282,015	884,948,915	323,067,579	2,119,348	20,530,491	82,622,374	9,647,962	315,031,434	88,716,463	2,356,755,869
Unspent Budget Authority	$ 14,366,191	$ 319,293	$ 1,407,671	$ 108,363	$ 13,386,236	$ 430,296	$ 3,249,459	$ 25,177,146	$ 13,248,389	$ 160,352	$ 7,469,778	$ 12,667,494	$ 782,732	$ 19,899,756	$ 60,274,424	$ 172,947,579
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund	$ 7,393,504	$ 102,169	$ 672,781	$ 5,432	$ 2,006,660	$ 7,196	$ 13,070	$ 7,319,186	$ 854,132	$ 9,550	$ 60,760	$ 11,055	$ 5,256	$ 867,121	$ 33,295	$ 19,361,167
State Special Revenue Fund	729,553	24,874	4,640	19,133	428	64,146	783,451	569,487	139,901	22,965	6,386	349,854	111,212	2,609,928	18,816	5,454,773
Federal Special Revenue Fund	6,243,134	192,250	730,251	83,798	11,379,148	358,953	2,452,938	17,288,473	12,254,357	127,837	7,402,631	12,306,584	666,264	16,422,707	50,365,220	138,274,544
Capital Projects Fund															9,857,094	9,857,094
Unspent Budget Authority	$ 14,366,191	$ 319,293	$ 1,407,671	$ 108,363	$ 13,386,236	$ 430,296	$ 3,249,459	$ 25,177,146	$ 13,248,389	$ 160,352	$ 7,469,778	$ 12,667,494	$ 782,732	$ 19,899,756	$ 60,274,424	$ 172,947,579

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Public Health & Human Services
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2017

1. Summary of Significant Accounting Policies

Basis of Accounting

The Department of Public Health and Human Services uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund categories (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service and Permanent). In applying the modified accrual basis, the Department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned and available to pay current period liabilities.
- Expenditures for valid obligations when the Department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the Department to record the cost of employees' annual and sick leave when used or paid.

The Department uses accrual basis accounting for its Fiduciary fund category. Under the accrual basis, as defined by state accounting policy, the Department records revenues in the accounting period when realizable, measurable and earned and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the Department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The Department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that

are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include programs such as Child Support Enforcement, cigarette tax expenditures, Public Health Laboratory, Healthy Montana Kids, medical marijuana license fees, and third party liability recoveries. The fund also accounts for activity at the Montana Developmental Center, the Montana Mental Health Nursing Care Center, the Montana Chemical Dependency Center and the Montana State Hospital supported by insurance and individual payments.

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal grants such as Medicaid, Temporary Assistance to Needy Families, Low-Income Home Energy Assistance Program, Weatherization Assistance Program, Vocational Rehabilitation, Child Support Enforcement, Foster Care, Adoption Assistance, Women Infants and Children, Supplemental Nutrition Assistance Program, Child and Adult Nutrition, Children's Health Insurance Plan, Social Service Block Grant, Center for Disease Control, Substance Abuse Prevention and Treatment and Child Care Development Fund Grant programs.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The Department accounts for the Montana State Hospital and Montana Developmental Center bond payments in this fund.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The Department uses this fund for major information technology systems.
- **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the Department's programs. The Department accounts for Endowment for Children, Older Montanans Trust and the Tobacco Settlement activity in this fund.

Fiduciary Fund Category

- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal clearing account activity but these must have a zero balance at fiscal year-end. The majority of the Department use of Agency Funds is for child support payments collected on behalf of children and distributed to custodial parents or guardians. Agency Funds also include moneys belonging to foster children and residents of care facilities.

2. General Fund Equity

The negative fund equity in the General Fund does not indicate overspent appropriation authority. The Department has authority to pay obligations from the statewide General Fund within its appropriation limits. The Department expends cash or other assets

from the statewide fund when it pays General Fund obligations. The Department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity for each of the fiscal years ended June 30, 2016 and June 30, 2017.

3. Direct Entries to Fund Equity

The Department recorded $457,384,406 and $525,289,152 of direct entries to fund equity in the General Fund during fiscal years 2016 and 2017 respectively. Most of the direct entries to fund equity in the General Fund result from entries generated by Statewide Accounting, Budgeting and Human Resources System (SABHRS) to reflect the flow of resources with the fund between separate agencies.

Direct entries to fund equity in the State Special Revenue, Federal Special Revenue and Capital Projects funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund equity in the General, State Special Revenue and Federal Special Revenue funds also include corrections of errors from a previous period that occurred at least two fiscal years prior.

4. Nonbudgeted Activity

The department's cost allocation plan for fiscal years 2016 and 2017 allocates shared costs across divisions. Recognition of these costs distributions results in expenditure abatements (negative amounts) in the "Other Expenses" Operating Expenses account category of divisions that perform a significant amount of shared services.

5. Estimated Revenues & Transfers-In

Revenue estimates include an overstatement of $496,755,777 in general fund for the fiscal year ended June 30, 2017 related to the Hospital Community Benefit Assessment program. The department entered an incorrect revenue estimate causing the overstatement. Revenue estimates were understated for federal revenues in the amount of $374,518,437 for federal Medicaid programs and various federal grants due to revenues being recorded in federal funds after the year-end control procedure for reviewing estimates had been completed.

6. Benefits and Claims

Benefits and Claims expenditures increased by $226,546,268 from fiscal year 2015 to 2016 and $452,427,656 between fiscal years 2016 to 2017. This increase is primarily as a result of expanded health coverage with the passage of the Montana Health and

Economic Livelihood Partnership (HELP) Act. Because these expenditures are claimed at an enhanced federal matching rate, the majority of the increase is accounted for in federal special revenues, thus changing the overall allocation between federal special revenue and general funds from year to year.

7. Prior Year Activity

Prior Year Expenditures and Transfers-Out Adjustments include the cancelation of unused expenditure liabilities estimated for Department benefit programs, the recognition of expenditures above estimated liabilities and standard prior year expenditure adjustments.

8. Financial Schedules

The financial schedules for the two fiscal years ended June 30, 2016 and June 30, 2017 do not foot or cross-foot due to rounding. However, the rounding issue is immaterial and the Department considers the schedules an accurate representation of the financial activity reported in SABHRS by the Department.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Joe Murray

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules, and have issued our report thereon dated November 14, 2017. Our report includes a qualified opinion on the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Department of Public Health and Human Services' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Department of Public Health and Human Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Public Health and Human Services' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be a material weakness.

The department's control procedures did not prevent, or detect and correct in a timely manner, material significant misstatements in revenue estimates for the General Fund and Federal Special Revenue Fund for the fiscal year ended June 30, 2017. See Recommendation #13 on page 29 for further description.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Public Health and Human Services financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 14, 2017

Department of Public Health and Human Services

Department Response

MONTANA DPHHS
Healthy People. Healthy Communities.
Department of Public Health & Human Services

Department of Public Health and Human Services

Director's Office ♦ PO Box 4210 ♦ Helena, MT 59620 ♦ (406) 444-5622 ♦ Fax: (406) 444-1970♦ www.dphhs.mt.gov

Steve Bullock, Governor

Sheila Hogan, Director

November 22, 2017

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LEGISLATIVE AUDIT DIV.

Angus Maciver
Legislative Auditor
Office of the Legislative Auditor
State Capitol, Room 160
Helena, Montana 59620-1705

Re: Financial Compliance audit

Dear Mr. Maciver:

The Department of Public Health and Human Services has reviewed the *Financial Compliance Audit* (17-18) completed by the Legislative Audit Division. Our responses and corrective action plans for each recommendation are provided below.

Recommendation #1:
We recommend the Department of Public Health and Human Services:

a) Review all cost pools to ensure department procedures align with cost allocation plan requirements and indirect cost limitations specified in federal grant award letters.

b) Allocate costs as specified in the cost allocation plan and federal grant award letter restrictions, as required by federal regulations.

Response: Concur

Corrective Action: The department has reviewed all cost pools for alignment with the cost allocation plan and compliance with indirect cost limitations. Areas of the cost allocation plan that need to be updated to align with department procedures have been identified and will be submitted for approval. New procedures to ensure the cost allocation plan is reviewed regularly and updated timely have been implemented.

Planned Completion Date: 1/31/2018

Recommendation #2:
We recommend the Department of Public Health and Human Services:

a) Establish procedures to ensure staff are properly cross-trained in order to execute cash reimbursement requests for its federal programs in a timely manner, as required by the Treasury State Agreement and federal regulations.

b) Establish procedures to ensure staff are properly trained regarding the completion of Treasury State Agreement cash spreadsheets.

c) Comply with the Treasury State Agreement for the Low Income Home Energy Assistance Program, as required by federal regulations.

Response: Concur

Corrective Action: The department has updated procedures detailing the CMIA cash spreadsheet and cash reimbursement requests, and will ensure staff who prepare the CMIA reconciliations are properly trained. Training specific to CMIA cash management will be added to new hire training of appropriate staff. Any changes to CMIA requirements will be incorporated into ongoing training of existing staff. The department is currently complying with the TSA Agreement as required by federal regulations for the Low Income Home Energy Assistance Program.

Planned Completion Date: 3/31/2018.

Recommendation #3:
We recommend the Department of Public Health and Human Services comply with state law and federal regulations by following state procurement policies to obtain services for the Temporary Assistance for Needy Families and Foster Care program.

Response: Do not concur

Corrective Action: Many of the services identified during the audit are for health care services (i.e. mental health counseling, chemical dependency evaluation). The Montana Procurement Act specifically exempts the services of "health care providers" such as those whose services were obtained. § 18-4-132(3)(f)(ii), MCA.

The Act's definition of "services" specifically excludes "the provision of human services administered by the department of public health and human services." MCA § 18-4-123(b). The remainder of the services the recommendation disputes fall within this exclusion, and are therefore not subject to the requirements of the Act or of the delegation agreement with the Department of Administration's procurement bureau.

The department believes procurement of services in the foster care program, funded in part by the Temporary Assistance for Needy Families, complies with state law and federal regulations, and that state procurement policies are being followed.

Planned Completion Date: N/A

Recommendation #4:
We recommend the Department of Public Health and Human Services enhance internal controls to ensure provider agreements are obtained and include disclosures regarding ownership and control, business transactions, and persons convicted of crimes, as required by federal regulations.

Response: Concur

Corrective Action: The department will review and enhance internal controls to ensure compliance with federal regulations related to provider agreements and disclosures.

Planned Completion Date: 3/31/2018

Recommendation #5:
We recommend the Department of Public Health and Human Services refer all suspected cases of Medicaid fraud to the Medicaid Fraud Control Unit, as required by federal regulations.

Response: Concur

Corrective Action: The department will confer with the Medicaid Fraud Control Unit and review federal regulations, the current agreement with MFCU, and current processes and documentation requirements to ensure cases of suspected provider fraud are being referred and documented in accordance with the federal regulations.

Planned Completion Date: 2/28/2018

Recommendation #6:
We recommend the Department of Public Health and Human Services:

a) Modify internal controls to ensure documentation supporting Automated Data Processing reviews contains all necessary information.

b) Comply with federal regulations by completing biennial reviews of all Automated Data Processing systems used in administering programs on behalf of the federal Department of Health and Human Services.

Response: Concur

Corrective Action: The department will modify procedures and internal controls to ensure documentation supporting ADP reviews contains all the necessary information. A revised quality assurance review process has been implemented to ensure security controls are completed. The revised bi-annual assessment list will be compiled and completed by December 31, 2017 as part of the 2018 security assessment work plan.

Planned Completion Date: 6/30/2019

Recommendation #7:
We recommend the Department of Public Health and Human Services document internal control procedures to ensure accuracy of CMS 64 reporting for Medicaid.

Response: Concur

Corrective Action: The department has implemented internal control procedures for the accurate reporting of the CMS-64, and have several successful reporting cycles since implementation. Staff responsible for completing the CM-64 will be cross-trained on all aspects of the report to ensure ongoing timely and accurate CMS-64 reporting.

Planned Completion Date: 2/28/2018

Recommendation #8:
We recommend the Department of Public Health and Human Services:

a) Develop internal controls to ensure voided benefits for the Special Supplemental Nutrition Program for Women, Infants, and Children are not subsequently paid by the WIC bank, as required by the state plan and federal regulations.
b) Reimburse the WIC bank only for valid food instruments, as required by federal regulations.

Response: Concur

Corrective Action: The department has fully implemented the new E-WIC benefits system as of November 1, 2017. This system eliminates paper vouchers and replaces them with debit cards. The system provides increased reporting and system controls that will allow for improved monitoring to ensure compliance with federal regulations.

Planned Completion Date: Complete

Recommendation #9:
We recommend the Department of Public Health and Human Services:

a) Develop internal controls to account for the disposition of all food instruments and cash-value vouchers as required by federal regulations.
b) Account for the disposition of food instruments and cash-value vouchers as either issued or voided, redeemed or unredeemed, including applicable subclassifications, in accordance with federal regulations.

Response: Concur

Corrective Action: The department has fully implemented the new E-WIC benefits system as of November 1, 2017. This system eliminates paper vouchers and replaces them with debit cards. The system provides increased reporting and system controls that will allow for improved monitoring and accounting for disposition to ensure compliance with federal regulations.

Planned Completion Date: Complete

Recommendation #10:
We recommend the Department of Public Health and Human Services comply with federal regulations for the Temporary Assistance for Needy Families program by comparing income information obtained from the Internal Revenue Service to information contained in individual case records in order to determine the effect, if any, on individuals' eligibility or amount of assistance.

Response: Concur

Corrective Action: The department has updated the business process on Potential Resource-Income Procedure to include the comparison of income obtained from the Internal Revenue Process. The process of a bi-annual match will be re-instituted to utilize the data for verifying eligibility and determining the amount of benefit.

Planned Completion Date: Complete

Recommendation #11:
We recommend the Department of Public Health and Human Services comply with federal regulations by:

a) Developing internal control procedures to ensure coordination between program and Business and Financial Services Division staffs for recovering Child Care Development Fund overpayments resulting from fraud.
b) Seek timely recovery for all identified fraudulent child care overpayments as required by federal regulations.

Response: Concur

Corrective Action: The department has updated business processes to include coordination between programs. Additional training will occur for staff and eligibility contractors to inform them of business processes and standards to ensure referral of overpayments for timely recovery.

Planned Completion Date: 1/31/2018

Recommendation #12:

We recommend the Department of Public Health and Human Services discontinue using federal Vocational Rehabilitation funds to pay the cost of wages associated with staff placed on administrative leave.

Response: Do not concur

Corrective Action: There are many forms of leave considered reasonable and necessary costs of conducting business. Federal regulation allows for the allocation of these costs, including periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, and administrative leave. The department policy is to record periods of authorized absences to the relative administrative cost pool, which is then allocated according to the PACAP. Administrative leave is a normal and reasonable charge, especially in a heavily unionized organization. The cost effectiveness of leaving administrative leave in the individual's cost pool vastly out ways more complicated administrative processes that would ultimately still charge the dollars to federal programs, as is allowable.

Planned Completion Date: N/A

Recommendation #13:

We recommend the Department of Public Health and Human Services establish internal controls to compare estimated to actual revenues for all fund types to ensure revenue estimates reflect the amount of revenue anticipated to be collected by the department.

Response: Concur

Corrective Action: The department has updated its internal control procedures to further control for reasonableness, timing and communication issues to mitigate this risk.

Planned Completion Date: Complete

If you have any questions regarding our response, please contact Erica Johnston, Operations Services Branch Manager, at (406) 444-9773.

Sincerely,

Sheila Hogan

Sheila Hogan, Director
Department of Public Health and Human Services

cc:
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